



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

Office of Lender Activities and Program Compliance

Compliance and Monitoring Industry Conference Call May 12, 2011
Frequently Asked Questions

1. **Question:** I am a conditional Direct Endorsement (DE) underwriter going through the test case process. How will the new changes on June 30, 2011, impact me?

Answer: After July 1, 2011, you may continue to submit test cases in support of your pursuit of unconditional DE authority. However, cases not used as test cases must be originated through a sponsored origination relationship with you acting as the third-party sponsored originator.

2. **Question:** I am a conditional Direct Endorsement (DE) underwriter. How will the new changes on June 30, 2011, impact my access to FHA Connection?

Answer: For test cases, you will have full access to FHA Connection functions. For cases in which you act as a sponsored originator, only your sponsoring lender may access those cases in FHA Connection.

3. **Question:** Is it true that an Authorized Agent without unconditional DE approval would not be able to originate loans as an Authorized Agent after June 30, 2011, and that it would become a sponsored originator?

Answer: Yes. As of January 1, 2011, the Principal must originate and the Authorized Agent must underwrite the loan. As of July 1, 2011, a Principal must have unconditional DE authority of some type (either forward or HECM). Lenders without unconditional DE authority may continue to originate loans for FHA insurance as sponsored originators. As of July 1, 2011, the Authorized Agent must have unconditional DE authority (forward or HECM) for the type of loan it is underwriting.

4. **Question:** Is an Authorized Agent with unconditional DE approval, allowed to submit loans to their current Principal for underwriting?

Answer: No. As of January 1, 2011 the Principal must originate and the Authorized Agent must underwrite the loan. As of July 1, 2011, the Authorized Agent must have unconditional DE authority (forward or HECM) for the type of loan it is underwriting. Either party may fund, close, and insure a loan originated via this relationship.

5. **Question:** Am I required to submit any approval or renewal documents to FHA in order to act as a sponsored originator?



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Answer: No. Because FHA does not approve sponsored originators, they are not required to submit any approval or renewal documentation or information to FHA in order to participate in FHA programs as a sponsored originator.

6. **Question:** What information must my sponsoring lender submit to FHA in order for me to act as a sponsored originator?

Answer: Your sponsoring lender must list your institution as a sponsored originator in the Sponsored Originator Maintenance Screen in the FHA Connection in order for you to participate in FHA programs as a sponsored originator (see Mortgagee Letter 2010-33).

7. **Question:** Can a non-FHA approved sponsored originator close a loan in its own name?

Answer: No. Non-FHA-approved sponsored originators may not close loans in their own names. The National Housing Act prevents non-FHA-approved sponsored originators from closing loans in their names (see Mortgagee Letter 2010-20).

8. **Question:** Can an FHA-approved lender acting as sponsored originator close a loan in its own name?

Answer: Yes. FHA-approved lenders acting as sponsored originators may close loans in their names.

9. **Question:** Must an FHA-approved lender acting as sponsored originator have unconditional direct endorsement authority in order to close a loan in its own name?

Answer: No. FHA-approved lenders acting as sponsored originators do not have to possess unconditional direct endorsement authority in order to close loans in their own names.

10. **Question:** Who can make changes to the sponsored originator's record in the FHA Connection?

Answer: Only the sponsoring lender that entered the sponsored originator in the maintenance screen can make changes to the sponsored originator's record.

11. **Question:** What are the new net worth requirements for FHA-approved lenders?

Answer: As of May 20, 2011, supervised, nonsupervised, and investing lenders must have a net worth of \$1 million. However, a lender who meets the size standard for its industry classification established by the Small Business Administration must have a net worth of \$500,000. For all supervised, nonsupervised, and investing lenders, no less than 20% of the lender's required net worth must be held as liquid assets.



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12. Question: Where can I find more information on the sponsored originator program?

Answer: Instructions regarding the sponsored originator program can be found in Mortgagee Letters 2010-20 and 2010-33.

13. Question: What is the “recertification” process?

Answer: Recertification is the process in which FHA-approved lenders complete their annual FHA reporting requirements in order to renew their FHA approval. Recertification requirements vary by lender approval type. For supervised, nonsupervised, and investing lenders, recertification includes paying the annual fee, submitting the electronic yearly certification, and submitting the FHA-required audits.

14. Question: When are FHA-approved lenders required to complete their recertification requirements?

Answer: All lenders must electronically recertify to FHA within 90 days of their fiscal year end.

15. Question: Where can I find more information on the recertification process?

Answer: If you have general questions about the recertification process, please visit the FHA Resource Center website at: <http://www.hud.gov/offices/hsg/sfh/fharesourcectr.cfm>, or call the FHA Resource Center toll-free at (800) CALL-FHA or (800) 225-5342 (Monday-Friday, 8 am to 8 pm ET, TDD: (877) TDD-2HUD (877) 833-2483).

Information on preparing a proper LASS submission is provided in the LASS User Guide at: http://www.hud.gov/offices/hsg/sfh/lass/lass_usermanual.cfm. LASS frequently asked questions are available at: http://www.hud.gov/offices/hsg/sfh/lass/faqs/lass_faqs.cfm. For specific questions on a LASS submission, please call the LASS accounting/auditing helpdesk at (202) 755-7400.

16. Question: What recertification requirements were waived in the April 7, 2011 waiver for small supervised lenders?

Answer: FHA-approved supervised lenders and applicants for approval as supervised lenders whose consolidated assets are less than \$500 million are not required to submit audited financial statements, a report on internal controls over financial reporting, or an auditor’s opinion on the computation of net worth to FHA.

17. Question: When does the April 7, 2011 waiver for small supervised lenders expire?



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Answer: The waiver of the submission of audited financial statements for supervised lenders with less than \$500 million began April 7, 2011, and will expire on April 7, 2012.

18. Question: Does the April 7, 2011 waiver for small supervised lenders apply to submissions for renewal that cover the audit period of fiscal year 2011?

Answer: Yes. The waiver of the submission of audited financial statements for supervised lenders with less than \$500 million will apply to any submissions due between April 7, 2011, and April 7, 2012. Because first-time submitters were granted an extension of 60 days for completing the FHA recertification, the waiver applies to a first-time submitter whose 2010 fiscal year ended within 150 days of April 7, 2011. If a lender recertifies prior to April 7, 2012, it will not be required to submit audited financial statements for fiscal year 2011. HUD intends to issue further guidance regarding its requirements for small supervised prior to the waiver's expiration.

19. Question: I am a supervised lender with less than \$500 million in consolidated assets. What FHA-required audits must I submit in order to recertify under the waiver?

Answer: FHA-approved supervised lenders whose consolidated assets are less than \$500 million are required to submit a certified public accountant or a state-licensed independent auditor's: (1) report on internal control as it relates to administering HUD-assisted programs; and (2) report on compliance with specific requirements applicable to major and non-major HUD programs. In addition, these lenders must submit a copy of their fourth quarter Call Report.

20. Question: I am submitting reports prepared by an auditor to FHA for the first time. Where can my auditor find information on how to complete these audits and prepare these reports?

Answer: Please refer to the HUD Consolidated Audit Guide, Handbook 2000.04 (particularly Chapters 1, 2, and 7) for information on how to prepare audit reports for FHA programs. Example reports are provided in Chapter 2 of Handbook 2000.04 and in the Chapter 2 Transmittal change document, dated March 2, 2011. Please also refer to Mortgagee Letter 2011-05 for an update on recertification for supervised lenders that are in parent-subsidiary relationships.

21. Question: I am an auditor preparing the audited reports for an FHA-approved lender. The HUD Consolidated Audit Guide, Handbook 2000.04 example for a report on internal control is a combined report applicable to internal control over financial reporting and over compliance. Can I submit separate internal control reports?

Answer: Yes. You can submit separate reports on internal control over financial reporting and internal control over compliance. The HUD Consolidated Audit Guide, Handbook 2000.04 instructs that the example reports are illustrations of reports that may be issued in an



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audit in accordance with the guide, and that the examples are not meant to be all-inclusive. Auditors should exercise professional judgment in tailoring their reports to the circumstances of individual audits.

Please refer to the HUD Consolidated Audit Guide, Handbook 2000.04 (particularly Chapters 1, 2, and 7) for information on how to prepare audit reports for FHA programs. Example reports are provided in Chapter 2 of Handbook 2000.04 and in the Chapter 2 Transmittal change document, dated March 2, 2011.

22. Question: I am an auditor preparing the audited reports for a supervised lender with less than \$500 million in consolidated assets. HUD Consolidated Audit Guide, Handbook 2000.04 example for a report on internal control is a combined report applicable to internal control over financial reporting and over compliance. How should I prepare a report on internal control over just compliance?

Answer: The HUD Consolidated Audit Guide instructs that the example reports are illustrations of reports that may be issued in an audit in accordance with the guide, and that the examples are not meant to be all-inclusive. Auditors should exercise professional judgment in tailoring their reports to the circumstances of individual audits. When preparing reports over internal controls and compliance, an auditor need not state that it has audited the financial statements of the lender if no audit of the financial statements was performed or required.

Please refer to the HUD Consolidated Audit Guide, Handbook 2000.04 (particularly Chapters 1, 2, and 7) for information on how to prepare audit reports for FHA programs. Example reports are provided in Chapter 2 of Handbook 2000.04 and in the Chapter 2 Transmittal change document, dated March 2, 2011.

23. Question: Will the LASS system be adapted to handle these types of submissions?

Answer: FHA is in the process of updating the LASS system. Although a supervised lender with less than \$500 million in net worth is not required to provide FHA with audited financial statements, LASS has not yet been modified to recognize this change and will not accept a submission with a blank financial data template. Lenders that are reporting under the waiver are advised to fill in the LASS template with zeros or Call Report information in order to submit the required internal controls and compliance reports. Auditors and lenders may call the LASS accounting/auditing helpdesk at (202) 755-7400.

24. Question: Will there be a Mortgagee Letter published to reflect the changes to the audited financial statements requirements for small supervised lenders?



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Answer: Mortgagee Letter 2011-25 was published on July 29, 2001, and outlines the changes to the requirements for supervised lenders with less than \$500 million in assets is forthcoming.